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0000179059

Pinnacle West Capital Corp.,
Law Department
Mail Station 8695
PO Box 53999
Phoenix, Arizona 85072-3999
Tel 602-250-3616
Thomas.Loquvam@pinnaclewest.com

Arizona Corporation Commission

DOCKETED

April 17, 2017

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GB

SENT VIA ELECTRONIC AND U.S. MAIL

Commissioner Bob Burns
Arizona Corporation Commission
1200 W. Washington Ave.
Phoenix, AZ 85007

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2017 APR 17 P 3:24

Re: APS's Response to Burns April 11, 2017 Letter
Docket Nos. E-01345A-16-0036 and E-01345A-16-0123

Dear Commissioner Burns:

Thank you for your letter of April 11, 2017 requesting information about the Settlement Agreement reached by many of the parties in the pending APS General Rate Case. This letter seeks to respond to your inquiries. It begins by providing information about the benefits of the Settlement and why it is in the public interest. Where appropriate, this letter responds to your detailed questions. Due to the confidential nature of the settlement negotiations, however, and the fact that as part of the Settlement Agreement, all parties have agreed to defend the Agreement as is, APS is unable to fully respond to certain questions posed in your letter.

A. The Settlement is in the Public Interest.

The Settlement is the product of several months of meetings and negotiations amongst parties representing diverse interests. What the signing parties are proposing to the Commission is a fully integrated and thoughtful compromise by the large majority of intervenors in this case. The Company, Staff and intervenor direct testimony supporting the Settlement establish that its terms are in the public interest. The Settlement allows the Company to remain financially strong, attract capital, recover investments in the grid, sustain

growth, and maintain reliability while moderating bill impacts for customers. The Settlement also takes a step toward modernizing APS's rate structures by updating existing rate structures and implementing certain new rate designs in a customer friendly way.

The benefits of the Settlement are many, including avoiding the uncertainty, burden, and expense of protracted litigation with forty parties offering strongly held and well-documented positions. APS's rate application raised several broad policy questions that invite well-considered, yet mutually-exclusive answers. Unfortunately, litigation often offers binary outcomes—one party “wins” and one party “loses.” A primary benefit of settling is that the outcome reflects the perspectives of all settling parties. If parties are willing to compromise, they can achieve more collaborative solutions to complex problems, an outcome that is inherently desirable.

Apart from the widely-accepted benefits of avoiding litigation, the Settlement also represents a middle ground between the divergent and well-supported litigation positions of the many parties. As the Settlement Direct Testimony establishes, the middle ground reached in this settlement also includes the following benefits for customers: expanded solar options for low income customers; continuation of funding for crisis bill assistance for low income customers; an experimental pilot technology rate for up to 10,000 customers; discounts for military customers and schools; resolution of the pending appeal of the Commission Decisions in the Value and Cost of Distributed Generation Decision Nos. 75859 and 75932; more off-peak hours and holidays on time-of-use rates; a moratorium on new self-build generation; and no new rate filing case before June 1, 2019. In addition, through a separate agreement APS, industry representatives, and solar advocates committed to stand by the Settlement Agreement and refrain from seeking to undermine it through ballot initiatives, legislation, or advocacy at the Commission.

B. The Settlement Process was Fair and the Terms are not Severable.

The Commission has ultimate authority to accept, reject, or modify the Settlement. This authority is distinct, however, from questions of whether APS or any other party might accept a particular change to the agreement. The Agreement is the product of interrelated compromises that reflect the parties' various positions and are delicately balanced with one another. Each party made compromises that they might not have otherwise made in exchange for other parties making their own difficult compromises. That parties agreed to compromises that are different from the positions they initially took in their direct revenue requirements and rate design testimonies does not call into question the accuracy or validity of those initial positions. To the contrary, the Settlement represents, on the whole, a give and take amongst competing interests to find a workable balance consistent with the public interest and the divergent interests of the settling parties.

To protect this delicate balance, each Signing Party agreed to take reasonable and good faith efforts to defend the entire agreement.¹ Neither APS nor any other party can indicate that it would accept a change to one or more provisions. Moreover, all settlement negotiations are confidential under Rule 408 of the Arizona Rules of Evidence and A.R.S. § 12-2238. Rule 408 prohibits the admission of evidence about settlement negotiations either to prove or disprove the validity or amount of a disputed claim. And A.R.S. § 12-2238 makes all mediation communications and related documents confidential. Thus, no party can divulge settlement negotiations, including any of the positions parties may have taken or might have accepted throughout the negotiation process. These confidential protections are critical to the success of any settlement and now limit all parties' ability to discuss their specific rationales for accepting particular settlement outcomes over others.

Finally, the agreement provides that if the Commission materially modifies the agreement, any Signing Party can withdraw from the agreement.² Whether a Commission modification is "material" is left to the absolute discretion of each Signing Party. Adjusting even seemingly innocuous provisions could compromise the desirability of that provision, or a different provision, from the perspective of APS or another party. As a result, any Signing Party could deem a change to be material, withdrawing from the agreement and potentially causing the entire settlement—including the opportunity for "peace" (or at least a truce) between APS and the Joint Solar Parties—to collapse. APS recognizes the Commission's complete authority over this process and the outcome of this proceeding, but urgently requests that the Commission consider this context in deciding whether to propose any modifications to the parties' delicately-balanced Agreement.

C. The Net Rate Base Increase and Stay Out Provision

The net rate base increase and stay out provision are a product of extensive negotiation and compromise. These components of the Settlement, along with the cost of capital provisions, provide for the Company's financial stability, allowing it to keep debt costs low and maintain superior reliability and service for its customers. Along with the stay out, these interdependent provisions are also key to providing rate stability for APS's customers.

The financial aspects of the Settlement Agreement demonstrate that interdependence. APS agreed to a lower rate increase in consideration for the total package represented by the Settlement. This package includes the capital structure, the ROE, the return on fair value, increased depreciation allowances, changes to certain adjustment mechanisms, improved rate design, implementation of the Value and Cost of Distributed Generation decision, and other provisions of the overall Settlement. A change to one element affects the others and could undermine the entire settlement. By way of example only, the fair value increment, which is required by Article XV, Section 14 of the Arizona Constitution (as noted in *Chaparral City Water Co. v. Arizona Corporation Commission*, 1 CA-CC 05-002 (Ariz. App. 2007)), is an essential component in determining the revenue deficiency. The fair value increment cannot

¹ See Agreement at Section XL. ¶ 40.6.

² See Agreement at Section XXXIX ¶ 39.5.

be changed without affecting the total package contained in the settlement. Indeed, changing the increment would not only affect the revenue calculations and *each* revenue term (which themselves would have widespread ripple effects across the Agreement, potentially implicating each parties' willingness and ability to accept the Agreement), but also other aspects of the Agreement, such as the stay out provision.

This General Rate Case was filed on June 1, 2016. Under the Settlement, the soonest APS can file its next case is June 1, 2019. Thus, the stay-out is a three year voluntary stay out—essentially the same as that the Commission just approved in the recent Southwest Gas rate proceeding. Except for agreeing to the stay out, APS has not made any decisions regarding the scope or timing of its next general rate case.

D. Customer Education and Transition Plan

The Settlement Agreement states that rates will go into effect on the effective date of the Commission's decision in this case using the transition rates as proposed. Transition rates are the Company's existing residential and extra small general service rate schedules with updated revenue requirements. Customers will then have the opportunity to choose any new rate for which they qualify, and APS will provide them information on options that would minimize their bill. Customers that do not select a different rate will transition to the updated rate plan most like their existing rate on or before May 1, 2018. In addition, APS will provide a report to the Commission indicating the total number of customers who have not made a selection at least 90 days before transitioning customers. Consistent with its normal business practices, APS plans to educate customers through a variety of channels, including existing communication platforms such as aps.com, the APS mobile app, on-bill messaging, and customer letters. For more detail, please see the Direct Settlement Testimony of Barbara Lockwood.

E. The Settlement Agreement Supports the Decisions and Structure of the Value and Cost of Distributed Generation Docket.

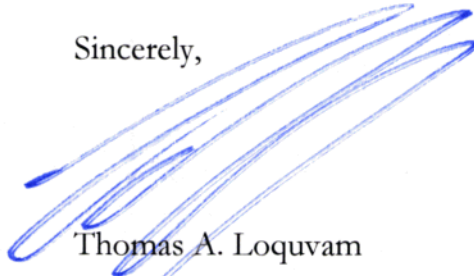
Under the Settlement Agreement, DG customers are eligible for various rate options from which they can choose. These rate options include a TOU *without* demand and TOU *with* demand rate plans, the TOU period for both of which includes expanded off-peak hours and more holidays. The options also include an experimental R-Tech Pilot Rate Program that will serve up to 10,000 customers. Additionally, the Settlement Agreement implements the Value and Cost of Distributed Generation Decision (Decision Nos. 75859 and 75932) for new residential DG customers fully and faithfully without modification while grandfathering existing solar customers and the Agreement fully and faithfully implements those decisions without modification. For more detail, please see the Direct Settlement Testimony of Barbara Lockwood.

F. Conclusion

Twenty-nine intervenors agreed that the Settlement is in the public interest, representing a broad spectrum of interested stakeholders, including Commission Staff, RUCO, the solar industry and solar advocates, low income advocates, large commercial and industrial customers, the federal executive agencies, schools and school districts, labor unions, and, of course, the Company itself. APS believes and hopes that after a hearing, the recommended order, and the opportunity to thoughtfully consider the Agreement, the Commission agrees.

Attached to this letter is an exhibit that provides responses to certain questions of yours in more detail. Please contact me if you have any further questions.

Sincerely,

A handwritten signature in blue ink, consisting of several overlapping, sweeping strokes that form a stylized representation of the name Thomas A. Loquvam.

Thomas A. Loquvam

TAL/dk
Attachments

APS's Responses to Commissioner Burns' Questions

- 1) *Section II calls for a rate case stay-out until June 1, 2019. That is less than two years from the requested date for new rates. APS's last rate case also had a stay-out requirement and APS stayed out longer than the requirement in that last case. Does APS truly believe that if this Settlement Agreement is approved with no modifications, that APS would be filing its next rate case prior to June 1, 2019, without the Section II provision? If yes, please explain why. Why should the Commission not require APS to refrain from filing its next rate case until no earlier than June 1, 2020, with a test year no earlier than December 31, 2019, with new rates from that rate case not becoming effective earlier than July 1, 2021?*

Please see APS's introductory letter.

- 2) *APS's application requested a net base rate increase of \$165.9 million. The Settlement Agreement results in a net base rate increase of \$94.624 million (paragraph 3.1). Why did APS agree to a net base rate increase of over \$71 million less than requested in its application? Does APS believe that \$71 million is an insignificant amount? Does APS believe that its rate application request for a \$165.9 million net base rate increase was inflated?*

Please see APS's introductory letter.

- 3) *Settlement Agreements are a result of give and take (see paragraph 40.1). What did APS receive in this Settlement Agreement for giving up over \$71 million in net base rate revenue that APS would not have received without this Settlement Agreement? Please explain in detail.*

Please see APS's introductory letter. The benefit of avoiding outcome by litigation, and instead achieving a collaborate solution that incorporates various perspectives, is difficult to quantify. The Settlement Agreement provides an opportunity to move away from a relatively contentious regulatory environment, and move towards a degree of regulatory stability that will enable APS to continue providing high quality service to its customers, invest in the future to meet customers' evolving needs and expectations, and provide a reasonable return to its investors.

- 4) *Paragraph 3.4 requires APS to impute net revenue growth for any revenue producing plant included in post-test year plant.*
- a. *Did APS meet this requirement in the application and in the settlement in this current rate case? If no, please explain in detail why not.*
 - b. *Is this requirement not something that should be done as common practice? If no, please explain why not in detail. If yes, please explain in detail why common practice (i.e.,*

APS's Responses to Commissioner Burns' Questions

common sense) is something that should be stated as a requirement in this Settlement Agreement.

APS performed the post-test year plant calculations contained in its application consistent with the way it has been performed in APS's last two rate cases. Only a de minimus portion of the post-test year plant in this case was caused by new growth.

- 5) *Paragraph 4.1 states that the average bill increase for residential customers will be 4.54%.*
- Please explain in detail how this average was obtained/calculated.*
 - What does this average increase mean in relation to customer usage, i.e., how does this relate to a customer that uses 800kWh per month equally throughout the day as opposed to one that uses 800kWh but mostly between 3 :00pm and 8:00pm?*

Please see the Revenue Spread/Targets attached to the Settlement Agreement as Appendix L and the Direct Settlement testimony filed by Charles Miessner on April 3, 2017. This analysis is based on the usage for all residential customers. Customers who use more during the off-peak hours will have a lower impact. With fewer on-peak hours in Settlement rates, customers on average consume 17.8% during the hours of 3-8 PM.

- 6) *Please provide a table of example residential bills based on different customer usage. This table should include usage amounts beginning at zero and ending with the maximum usage showing the bills at each 10% increment of the percentage of customer bills for the three most widely used residential rate plans (for a total of 36 bills). This table should compare the bills under existing rates and those rates contemplated in the first year in the Settlement Agreement. Assume customers choose the new rate plan that is most like their existing rate plan.*

Please see the table attached to this response as Attachment 1.

- 7) *Paragraph 4.2 states that \$15 million of DSMAC will be refunded during the first year of new rates. Please provide the same table requested above, with the same customers, but for year 2 (i.e., after DSMAC refund ends) of new rates contemplated by the Settlement Agreement.*

The table provides the effect of the full increase – or essentially the year 2 rates. For the first year, on average, residential customers will see approximately a 0.5% monthly credit due to the DSMAC refund.

APS's Responses to Commissioner Burns' Questions

8) *Section V of the Settlement Agreement deals with Cost of Capital.*

- a. *Does APS believe that equity is higher cost than debt?*
- b. *Why is there nothing in this Settlement Agreement calling for APS to move to a capital structure that is closer to 50/50?*
- c. *All other things remaining unchanged, what would the net base rate increase be in this Settlement Agreement if a hypothetical capital structure of 50/50 was used in this case?*

Obtaining capital through issuing equity is more costly than doing so with debt. Please see APS's introductory letter.

9) *Paragraph 5.3 calls for a 0.8% return on the fair value increment. Does APS believe that the Commission is legally required to give APS a return (i.e., something greater than zero) on the fair value increment? If yes, please explain in detail. Does APS believe that it would be illegal for the Commission to find that it considered the fair value increment and in doing so, that it agrees with Staff witness Parcell that the fair value increment is not investor supplied capital and therefore should be granted a zero return on the fair value increment? If yes, please explain in detail. All other things remaining unchanged, what would the net base rate increase be in the Settlement Agreement if the return on the fair value increment is zero, 0.1%, 0.3%, 0.5% and 0.7%? What overall rate of return on the original cost rate base results from the operating income agreed to in the Settlement Agreement? While recognizing no fair value increment in the capital structure or rate base and using a capital structure comprised of 55.8% equity and 44.2% debt at 5.13%, what cost of equity provides the same operating income as the Settlement Agreement?*

Please see APS's introductory letter.

10) *Section VII of the Settlement Agreement leads with the Fuel and Power Supply Adjustor ("PSA"). The APS application requested that the cost of water be included in the PSA. There is no mention of including water costs in the Settlement Agreement. Does this mean the cost of water is excluded from the PSA?*

Yes.

11) *Paragraph 7.2 allows the inclusion of costs for lime, ammonia and sulfur in the PSA.*

- a. *Are these costs currently allowed? If no, why not? If yes, why is paragraph 7.2 needed?*

No. These costs are currently recovered in base rates, not the PSA. Please see Staff Witness Ralph Smith's Direct Testimony for why these certain environmental chemicals are appropriate to include in the PSA.

APS's Responses to Commissioner Burns' Questions

12) Paragraph 7.3 permits the inclusion of third-party storage expenses.

- a. *Would APS be opposed to making the required filing 180 days prior instead of 90 days prior to any contract becoming effective?*

Please see APS's introductory letter.

- b. *If the 90-day provision is approved by the Commission, could the third-party storage expenses be included without Commission approval? If not, why is any time-frame for filing required?*

No, the costs could not be included without Commission approval. The timeframe is needed to help ensure timely recovery of the costs in the PSA.

13) Paragraph 9.1 allows APS to file for an increase in rates for environmental equipment installed at Four Corners. The filing date for this could be as late as January 1, 2019, while APS could file its next rate case as early as June 1, 2019, only five months later.

- a. *Why would it not be better (especially from a workload perspective for all involved) for the Commission to eliminate paragraph 9.1 and instead just review these costs in APS's next rate case?*

Paragraph 9.1 indicates that the docket will remain open for the sole purpose of allowing APS to file a request to increase rates after the Four Corners SCRs are completed, which is anticipated to be in the spring of 2018. APS's request will be filed shortly thereafter. APS's request will be that rates be adjusted no later than January 1, 2019, which is also referenced in Paragraph 9.3 as the date the Signing Parties would use good faith efforts to achieve. Regarding the background of the SCR deferral and step increase, please see the Direct Testimony of Leland Snook filed on June 1, 2016.

14) Paragraph 9.3 states that parties will work to have the rates from the filing in paragraph 9.1 become effective by January 1, 2019.

- a. *How will that be possible, when paragraph 9.1 states that APS can file its request for such a rate increase on the same date, i.e., no later than January 1, 2019?*

See APS's response to #13.

15) Paragraph X allows for the deferral of costs related to the Ocotillo Modernization Project ("OMP"). APS would be allowed to request recovery of these costs, plus interest, in its next rate case.

APS's Responses to Commissioner Burns' Questions

- a. *Why does the Settlement Agreement not treat the Selective Catalytic Reduction deferred costs (see Section IX) at Four Corners in the same manner as the deferred costs of the OMP?*

The Settlement Agreement does provide for a deferral of SCR costs in Paragraph 9.2, from the in-service date until the proceeding contemplated in Paragraphs 9.1 and 9.3 is concluded.

16) *Section XI deals with deferred costs related to changes in APS's property tax rate.*

- a. *Is this section exactly the same or different than the similar issue contained in APS's last rate case? If different in any way, please explain the differences in detail.*

In both this rate case and the prior rate case, APS has the ability to defer for future recovery (or credit to customers) the Arizona property tax expense above or below the Test Year caused by changes to the applicable Arizona composite property tax rates. The ability to defer the total amount of property tax expense, the treatment of the deferral once it is included in base rates and the interest rate applicable to the deferral are different in this case.

17) *Section XII deals with the cost of service study. Please explain the purpose of having Section XII in the Settlement Agreement. The explanation should contain a detailed discussion of the benefits and drawbacks of having the requirements of Section XII in the Settlement Agreement for each of the customer classes listed below.*

- a. *Low income residential customers*
- b. *Typical residential customers*
- c. *Small commercial customers*
- d. *Medium size commercial customers*
- e. *Large commercial customers*

Paragraph 12 ensures model transparency, where parties have access to the cost of service study in an Excel spreadsheet with inputs and outputs linked. In the present case and the previous two rate cases, APS has used the Average and Excess methodology to allocate production demand costs. APS has not performed the second step contained in Paragraph 12.2 to reallocate costs within the residential customer sub-class using 4CP.

18) *In Section XIV, would APS be opposed to adding an additional paragraph as follows:*

APS's Responses to Commissioner Burns' Questions

14.3 APS shall report on and discuss its workforce planning at the Commission's annual Summer Preparedness Workshop, beginning in 2018. Such a requirement shall remain in effect until further notice by the Commission.

Please see APS's introductory letter.

19) Please explain in detail the purpose of the Self-Build Moratorium contained in Section XV.

Please see APS's introductory letter.

20) Section XVI discusses the establishment of a Tax Expense Adjustor Mechanism.

a. Does APS expect any Federal income tax reform legislation to increase or decrease APS's annual Federal income tax expense?

Both the House of Representatives and the White House have proposed a significant decrease in the Federal statutory income tax rate. If either of these proposals are passed into law, APS's federal income tax expense may decrease. It is for this very reason that APS proposed the Tax Expense Adjustment Mechanism in the Settlement Agreement. However, given the number of unknown variables and the lack of detailed legislative reform language, we are unable to accurately predict any impacts to the company at this time.

21) For each rate listed in Section XVII, please discuss whether each is a new rate or a modification of an existing rate.

Please see APS's introductory letter.

22) For each rate listed in Section XVII, please explain in detail how APS will advise and educate its customers of these rates.

Please see APS's introductory letter.

23) Paragraphs 17.5 and 17.6 discuss Rate Schedules R-2 and R-3, respectively. Both R-2 and R-3 are described as "three-part" rates.

a. Does "three-part" refer to a basic service charge, a kWh usage charge and a kW demand charge? If yes, please explain in detail how customers will be educated on these two rate schedules, especially regarding the kW demand charge.

APS's Responses to Commissioner Burns' Questions

Yes. Please see APS's introductory letter.

24) *In paragraph 17.8:*

- a. *Would APS be opposed to having the on-peak periods be 4:00pm to 7:00pm; 3:30pm to 7:30pm; 3:00pm to 7:00pm; 4:00pm to 8:00pm? If yes, please explain in detail APS's opposition to each set of hours.*
- b. *If the Commission were to mandate one of the above set of hours, which one would APS prefer ("none" is not an acceptable answer)?*
- c. *Please rank the above set of hours from least desirable to most desirable to APS.*
- d. *In APS's existing time-of-use rate plans, what are the excluded holidays?*
- e. *How did APS consider seasonal time-of-use rates in the Settlement Agreement? Are they included in it? Please explain why or why not.*

Please see APS's introductory letter. Please also see the Direct and Rebuttal Settlement Testimonies of Charles Miessner.

25) *Please explain in detail how Section XVIII will result in distributed generation customers being treated differently than they would have been treated without this section, thereby having these customers treated as contemplated per the outcome of the Value of Solar docket.*

Section XVIII articulates the suite of rates available to new residential solar customers going forward, including the use of a grid access charge on a TOU energy rate to achieve a \$0.105 per kWh offset for self-consumption. Section XVIII is consistent with the Value of Solar decision and incorporates the Resource Comparison Proxy (RCP) method for APS as a result of that docket, establishes the first year export rate of \$0.129 per kWh and establishes the framework for determining the prices in subsequent years, which is discussed in detail in the RCP Plan of Administration, attached to the Settlement Agreement as part of Appendix H.

26) *Paragraph 18.3 sets the export energy rate for year one. Paragraph 18.4 states that this year-one export energy rate was a result of settlement negotiations.*

- a. *How and when will the export energy rate for years two, three, four and five be set?*
- b. *Please provide estimates of what the export energy rates will be for years two, three, four and five will be.*

Please see the RCP Plan of Administration, attached to the Settlement Agreement as part of Appendix H.

APS's Responses to Commissioner Burns' Questions

27) *Section XIX delineates the availability of certain rates for APS's customers. Paragraphs 15.1 and 26.1 mention a customer education plan, information and outreach. Does APS currently have this education/information plan to adequately and properly explain all of APS's rate options to its customers? If no, why not? If no, would APS be opposed to creating such a customer education/information plan and submitting such a plan to the Commission for Commission approval, prior to implementing any of the provisions of paragraph 19.1? If APS does have such a plan, would APS be opposed to submitting such a plan to the Commission for Commission approval, prior to implementing any of the provisions of paragraph 19.1? After May 1, 2018, it appears new customers will be required to choose a time-of-use ("TOU") or three-part demand rate ("Demand Rate") and will be required to remain on this rate for at least 90 days, i.e., three billing periods. Is that correct? If yes, please explain in detail how this requirement is fair and beneficial to new customers? If after May 1, 2018, new customers are required to choose a TOU or Demand Rate and remain on this rate for 90 days, would APS be opposed to refunding (after the 90-day period) each such customer the amount of money collected by APS that was in excess of what APS would have collected had the customer been on the typical non-TOU or non-Demand Rate, i.e., basic two-part rate? Please explain why in detail.*

Please see APS's introductory letter.

28) *Paragraph 23.3 has a phrase stating "At APS's option..." With this statement, how can the Commission and APS customers be assured that all customers will be treated equally and fairly by APS?*

Please see APS's introductory letter.

29) *Section XXVI relates to the effective date of new rates from this case. It seems that this Settlement Agreement would result in quite a few new rate options for customers. Would APS be opposed to having the effective date of new rates in this case being the list day of the month following the month in which the Commission-approved customer education/information plan (see discussion of Section XIX above) was sent to all APS customers? Would APS be opposed to the Commission requiring APS to send that information to customers prior to the tenth day of the month? If yes, please explain in detail APS's opposition and how the Commission not requiring this would be beneficial and fair to APS customers.*

Please see APS's introductory letter.

30) *In paragraph 28.4 APS defines moderate and low income customers.*
a. For 2016, what was the median Arizona household income?
b. For 2016, what was the federal poverty level?

APS's Responses to Commissioner Burns' Questions

a. According, to the U.S. Census Bureau, the Arizona median household income in 2015 was \$50,255 (2016 statistics are not yet available).

b. In 2016, the federal poverty level for a family of four was \$24,250.

31) *Paragraph 32.1 states that the LFCR opt-out rate option approved in the last decision will be removed. Why was it removed?*

Please see APS's introductory letter. In addition, as stated by Leland Snook in his direct testimony filed on June 1, 2016, the LFCR opt-out rate provision was eliminated due to it being unnecessary, with very few customers using the provision. Mr. Snook also noted that this provision has also been eliminated for other utilities in Arizona with an LFCR mechanism, due the same circumstances.

32) *Paragraph 32.2 states that for customers on a demand rate, the LFCR charge will be based on the customers' demand. Please provide examples for each of the customers below showing how each of their bills may be affected by this provision:*

- a. *Low demand customer*
- b. *Medium demand customer*
- c. *High demand customer*

Please see the Direct Testimony of APS witness Leland R. Snook filed on June 1, 2016. The costs which are recovered by the LFCR mechanism are fixed costs of providing service which have not been recovered. Therefore, it is most appropriate to recover these fixed costs through the proper billing elements. The Settlement Agreement adopts the framework proposed by the Company that customers on a demand rate should be billed the LFCR as the most appropriate billing element based on the customers rate selection, and for customers on a kWh based rate, the LFCR should be assessed on kWh as the most appropriate billing element. Presently, LFCR is billed as a % of bill, which does not accurately apportion the recovery of LFCR related costs.

33) *Please explain why residential customers on a demand rate should be subject to the LFCR charge.*

Please see the LFCR Plan of Administration attached to the Settlement as Appendix O. The only customer groups exempt from the LFCR based on rate structure are the large and extra-large general service customers, because their respective rate design recovers a significant portion of fixed costs in fixed or demand related charges, including ratchet and minimum contract demand provisions. Residential rates with demand are not structured in the same way.

APS's Responses to Commissioner Burns' Questions

34) Please explain in detail how Commission approval of this Settlement Agreement may be beneficial for each of the customer classes listed below:

- a. Low income residential customers
- b. Typical residential customers
- c. Small commercial customers
- d. Medium size commercial customers
- e. Large commercial customers

Please see APS's introductory letter.

35) Please explain in detail how Commission approval of this Settlement Agreement may be detrimental for each of the customer classes listed below:

- a. Low income residential customers
- a. Typical residential customers
- b. Small commercial customers
- c. Medium size commercial customers
- d. Large commercial customers

Please see APS's introductory letter.

36) Please explain in detail how the Commission not approving this Settlement Agreement but instead having this case be fully litigated may be beneficial for each of the customer classes listed below:

- a. Low income residential customers
- b. Typical residential customers
- c. Small commercial customers
- d. Medium size commercial customers
- e. Large commercial customers

Please see APS's introductory letter.

37) Please explain in detail how the Commission not approving this Settlement Agreement but instead having this case be fully litigated may be detrimental for each of the customer classes listed below:

- a. Low income residential customers
- b. Typical residential customers
- c. Small commercial customers
- d. Medium size commercial customers
- e. Large commercial customers

APS's Responses to Commissioner Burns' Questions

Please see APS's introductory letter.

38) *In APS's application for this case, APS requested approval of three-part demand rates that would be mandatory for all customers. It seems that the Settlement Agreement does not contain any such mandatory rates for either existing or new customers (except for the 90-day requirement for new customers). Is this correct?*

Yes.

39) *In APS's next rate case, does APS plan to again request mandatory three-part demand rates (if such rates are not approved by the Commission in this case)? If yes, would APS be opposed to having an ordering paragraph in the decision in this case that ordered APS to submit for Commission approval an education plan for such rates, with that plan being submitted at least 360 days prior to the submittal of APS's application for its next rate case? If yes, please explain in detail.*

At this time, APS has not made any decisions about its next rate case. Please see APS's introductory letter.

40) *Please clarify qualification #2 in Appendix F, Page 1 of 6. Does it mean that the purchase of one primary on-site technology and the purchase of two secondary on-site technologies within 90 days, or does it mean two secondary on-site technologies already exist on the property and the customer purchases a primary on-site technology within 90 days, or does it mean something different?*

Secondary technologies are not required to be purchased within 90 days.

41) *Is APS completely satisfied with all aspects of Appendix H? If no, please explain in detail.*

Please see APS's introductory letter.

42) *APS advertises at sporting events, including the Arizona Diamondbacks baseball games, Phoenix Suns basketball games, on television, radio, billboards, etc.*

- a. *How much money did APS spend on advertising during the test year?*
- b. *How much money did APS spend on advertising during 2016?*
- c. *How does APS define what qualifies as advertising expenditures?*

APS's Responses to Commissioner Burns' Questions

- d. Are any of the advertising expenses being recovered through the rates approved in this case? If yes, please explain in detail how much and why APS customers should pay for such advertising through their rates.*

For 2015, APS incurred \$3.6M of advertising expense. However, APS only included \$2.5 million of advertising related costs in the 2015 Test Year cost of service. The advertising items included in the cost of service are only those that relate to ACC approved-programs, that are used to educate or inform our customers regarding utility services provided, energy conservation or safety, and other important information for our customers. The amount included in the cost of service does not include sports sponsorships, therefore those costs are not paid for by customers. APS follows the definition prescribed in the FERC system of accounts for the classification of advertising expenses.

- 43) Please provide all meter expenses, including meter reading and maintenance from 2010-2016.*

Please see APS's response to Woodward data request 2.35 attached to this response as Attachment 2.

- 44) What are the current rules and restrictions on selling individual or aggregated customer data information to third parties? Does APS sell individual or aggregated customer data to third parties? If yes, what were the revenues received during the test year and in 2016 and what are the projected revenues associated with selling this information in the future? If not, is APS considering selling individual or aggregated customer data to third parties? Does APS consider these above-the-line or below-the-line revenues?*

APS does not sell customer data. In addition, A.A.C. R14-2-203(A)(2) prohibits the release of customer-specific information without specific prior written customer authorization unless certain limited exceptions apply, including a request from the Commission or if releasing the data is necessary to provide safe and reliable service to the customer.

- 45) What revenues has APS received from its association with HomeServe? Were these revenues accounted for during the test year and in 2016? If no, why not? If yes, does APS consider these above-the-line or below-the-line revenues?*

APS received approximately \$50,000 in revenue from HomeServe in the 2015 Test Year. This is recorded to an above-the-line revenue account in Other Revenues.

Bill Comparisons from Transition Rates to New Settlement Rates

Average Usage Bins			Average Monthly Bill - Settlement					Average Monthly Bill - Transition				
Avg kWh	Avg kW	R-XS	R-Basic	R-Basic L	TOU-E	R-2	R-3	E12	ET2	ECT2	Best new Rate	Best New Average
91	0.8	20.63			24.51	27.51	30.28		20.07	29.66	XS	20.63
182	1.7	31.25			36.03	42.45	48.18		30.10	39.75	XS	31.25
273	2.5	41.87			47.55	56.97	65.46		40.13	49.85	XS	41.87
364	2.5	52.50			59.03	64.77	70.62		50.16	59.94	XS	52.50
455	2.8	63.12			70.45	75.49	81.10		62.57	70.12	XS	63.12
546	3.4	73.74			81.97	87.91	94.54		74.98	80.21	XS	73.74
578	3.7	77.42			86.56	93.31	101.98		80.93	84.63	XS	77.42
660	3.7		96.79		97.05	100.40	106.68		92.41	93.89	RB	96.79
743	4.1		107.02		107.60	110.86	117.57		105.26	103.23	RB	107.02
790	4.2		112.91		113.98	116.32	123.25		114.30	109.17	RB	112.91
869	4.6		122.69		124.16	126.49	133.96		126.76	118.10	RB	122.69
948	5.0		132.48		134.21	136.65	144.66		139.22	127.04	RB	132.48
1,027	5.4			157.76	144.26	146.39	154.75		151.68	136.06	TOUE	144.26
1,106	5.6			168.35	154.44	155.31	163.10		164.14	144.99	TOUE	154.44
1,185	6.0			178.95	164.49	165.47	173.80		176.60	153.93	TOUE	164.49
1,264	6.4			189.55	174.64	175.64	184.50		189.06	162.87	TOUE	174.64
1,343	6.2			200.14	184.72	180.34	185.17		201.52	171.88	R2	180.34
1,458	6.1			215.56	199.05	189.70	190.23		217.89	184.30	R2	189.70
1,539	6.4			226.43	209.38	199.19	199.56		230.56	193.37	R2	199.19
1,620	6.3			237.30	219.70	205.32	202.69		243.24	202.53	R3	202.69
2,025	8.0			291.61	271.41	254.04	251.16		306.63	248.31	R3	251.16
2,430	8.4			345.93	323.07	292.25	280.44		370.02	294.09	R3	280.44
3,240	11.1			454.57	426.41	385.06	369.09		502.97	385.58	R3	369.09
4,050	12.3			563.21	529.79	464.84	433.84		635.92	477.06	R3	433.84
6,075	13.9			834.80	788.10	652.11	573.14		968.30	705.81	R3	573.14
9,720	22.2			1,323.67	1,253.19	1,035.93	909.83		1,566.59	1,117.52	R3	909.83

This analysis (1) only provides a typical seasonal billing kW for each kW bin, rather than the diversity of kW's actually experienced by customers, (2) shows the impacts for all of the current and Settlement rate choices, rather than the actual rates chosen by customers, and (3), does not reflect any change in usage, such as shifting kWh energy use to off-peak hours or reducing on-peak kW demand under the new rate choices.

INTERVENOR WARREN WOODWARD'S
SECOND SET OF DATA REQUESTS TO
ARIZONA PUBLIC SERVICE COMPANY REGARDING
THE APPLICATION TO APPROVE RATE SCHEDULES DESIGNED TO
DEVELOP A JUST AND REASONABLE RATE OF RETURN
DOCKET NO. E-01345A-16-0036
DECEMBER 5, 2016

Woodward
2.35:

- a) What are the annual operating costs including depreciation and return on rate base (revenue requirement) for APS's entire "smart" meter system? Include associated IT infrastructure such as data systems, data storage costs, cybersecurity costs, software/system integration, Field Area Network and Project Services, AFUDC, Loads, and other miscellaneous costs). Detail by major category for 2014-2017.
- b) Translate above to per meter cost.
- c) What is the total operating costs including depreciation and return on rate base for customers who have refused "smart" meters, excluding the costs of APS's "smart" meter system?
- d) Translate above to per meter costs.

Response:

- a) Below please find actual annual operating costs and revenue requirement for APS's automated metering system for the years 2014 through 2016. Depreciation expense is not yet available for 2017.

	2014 Actual	2015 Actual	End of Year 2016 Estimated
Annual Operating costs - T&D Meter Technology & Ops Dept	\$ 14,190,445	\$ 11,202,247	\$ 11,638,057
Annual Operating costs - IT support, licenses	\$ 1,003,841	\$ 992,641	\$ 1,069,702
Annual Depreciation Expense	\$ 10,312,849	\$ 10,423,175	\$ 10,472,027
Total	\$ 25,507,136	\$ 22,618,063	\$ 23,179,786
Annual Revenue Requirement	\$ 57,573,200	\$ 54,552,339	\$ 56,104,012

- b) The following is the per meter cost for the table provided in subpart a.

	2014 Actual	2015 Actual	End of Year 2016 Estimated
Year-end balance of installed meters	1,185,019	1,197,333	1,200,881
Per meter cost (Annual Operating Costs + Depreciation)	\$ 21.52	\$ 18.89	\$ 19.30
Per meter cost (Annual Revenue Requirement)	\$ 48.58	\$ 45.56	\$ 46.72

Witness: Elizabeth Blankenship
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Response to c) Below please find actual annual operating costs and revenue requirement for
Woodward customers requesting to opt-out of standard metering for the years 2014
2.35 through 2016. Depreciation expense is not yet available for 2017.
continued:

	2014 Actual	2015 Actual	End of Year 2016 Estimated
Annual Operating costs - T&D Meter Technology & Ops Dept	\$ 2,708,458	\$ 2,740,349	\$ 2,629,643
Annual Operating costs - IT support, licenses	\$ -	\$ -	\$ -
Annual Depreciation Expense	\$ 675,417	\$ 634,343	\$ 641,345
Total	\$ 3,383,875	\$ 3,374,692	\$ 3,270,988
Annual Revenue Requirement	\$ 5,440,308	\$ 5,386,713	\$ 5,338,964

d) The following is per meter cost for the table provided in subpart c.

	2014 Actual	2015 Actual	End of Year 2016 Estimated
Year-end balance of installed opt-out meters	16,691	16,560	15,891
Per meter cost (Annual Operating Costs + Depreciation)	\$ 202.74	\$ 203.79	\$ 205.84
Per meter cost (Annual Revenue Requirement)	\$ 325.94	\$ 325.28	\$ 335.97

Supplemental Response: Please note the revenue requirement stated in APS's original response to Woodward 2.35 reflects a partial revenue requirement calculation as it is not inclusive of Accumulated Deferred Income Taxes (ADIT) and does not include all AMI related operating costs such as data storage, cyber security, and other costs that APS is not able to specifically provide for AMI meters because APS does not track O&M at a meter specific level.

Witness: Elizabeth Blankenship
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